

**REPORT OF THE AUDIT OF THE
FORMER ROCKCASTLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER ROCKCASTLE COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the former Rockcastle County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$203,250 from the prior year, resulting in excess fees of \$128,112 as of December 31, 2005. Revenues decreased by \$46,968 from the prior year and allowable expenditures increased by \$156,282.

Report Comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- Internal Controls Should Be Improved Over The Federal Drug Forfeiture Account

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Former Rockcastle County Sheriff
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Rockcastle County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Former Rockcastle County Sheriff
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- Internal Controls Should Be Improved Over The Federal Drug Forfeiture Account

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 16, 2007

ROCKCASTLE COUNTY
 DARRELL DOAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	25,178	
House Bill 413			2,916
House Bill 452			37,049
State Fees For Services:			
Sheriff's Fees			11,749
Circuit Court Clerk:			
Sheriff Security Service			589
Fiscal Court			47,846
County Clerk - Delinquent Taxes			1,189
Commission On Taxes Collected			107,253
Fees Collected For Services:			
Auto Inspections	\$	4,627	
Accident and Police Reports		489	
Serving Papers		14,090	
Carrying Concealed Deadly Weapon Permits		6,980	
Arrest Fees		2,689	
Add-On Fees		17,830	
		<hr/>	46,705
Other:			
Operation UNITE Payroll Reimbursement		29,140	
Payroll Transfer from State Forfeiture Account		7,000	
Payroll Transfer from Fiscal Court		7,392	
Refund		617	
HITDA		49,077	
Gasoline Reimbursement		2,000	
Transports		2,047	
Miscellaneous		2,804	
		<hr/>	100,077
Interest Earned			<hr/> 81
Total Revenues			380,632

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 DARRELL DOAN, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	66,913
Kentucky Law Enforcement Foundation Program Fund		25,178
Operation UNITE		29,140
HITDA		49,077

Contracted Services-

Vehicle Maintenance and Repairs		3,431
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Materials and Supplies-

Office Materials and Supplies		630
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Auto Expense-

Gasoline		7,803
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Other Charges-

Postage		48
Carrying Concealed Deadly Weapon Permits		3,150
Miscellaneous		1,676

Total Expenditures		\$	187,046
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Net Revenues			193,586
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Less: Statutory Maximum			65,474
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Excess Fees			128,112
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Monthly Payments to Fiscal Court	76,411		
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Payment to Fiscal Court - March 19, 2007	51,701		128,112
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Balance Due Fiscal Court at Completion of Audit		\$	0
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ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. State Forfeiture Account

During 2005 the Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in state drug-related convictions. These funds are to be used for law enforcement activities. As of January 1, 2005, this account had a beginning balance of \$0. During 2005, funds of \$9,572 were received and \$8,836 was expended, leaving a balance of \$736 as of December 31, 2005.

Note 5. Federal Forfeiture Account

During 2005 the Sheriff's office received proceeds from the Federal Government for participating in investigations or prosecutions that resulted in forfeited federal drug money. These funds are to be used for law enforcement activities, including training, equipment and operations, facilities and equipment, drug education and awareness, etc. As of January 1, 2005, this account had a beginning balance of \$15,891. During 2005, funds of \$136,172 were received and \$130,112 was expended, leaving a balance of \$22,041 as of December 31, 2005.

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COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official had limited options for establishing an adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. He could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff should have compared the quarterly financial report to receipts and disbursements ledgers for accuracy. The former Sheriff should also have compared the salaries listed on the quarterly report to the individual earnings records. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the quarterly financial report.
- The former Sheriff should have periodically compared invoices to payments. The former Sheriff could have documented this by initialing invoices.
- The former Sheriff should have required dual signatures on all checks, with one signature being the Sheriff's.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff's Response: None

Internal Controls Should Be Improved Over The Federal Drug Forfeiture Account

The former Sheriff's office exercised poor internal controls over the Federal Drug Forfeiture Account. The former Sheriff could not produce supporting documentation for all expenditures made during this time period. Auditor also noted several instances where payments were not made timely. Auditor was also met with strong resistance from the former Sheriff in obtaining these records. The former Sheriff should have supporting documentation for each receipt and expenditure made from this account. In addition, all expenditures should be made in a timely manner.

Former Sheriff's Response: None

PRIOR YEAR:

- The Sheriff's Office Lacks Adequate Segregation Of Duties – Repeated

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Rockcastle County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated March 16, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- Internal Controls Should Be Improved Over The Federal Drug Forfeiture Account

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 16, 2007

